

**Topics in International Economics (ECO2304H)**  
**Spring 2013**

**Instructor:**

Daniel Trefler

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**Course Description:**

This course covers key topics of current interest (both to researchers and policy/media types). Topics covered include the new theories of (1) firm-level comparative advantage, (2) offshore outsourcing and multinational activities, and (3) the impact of international trade on domestic institutions. These theories and their empirical support will be carefully examined.

Each lecture will provide in-depth coverage of a key recent contribution; students will be expected to do the readings in advance. The educational goals of the course are: (1) to learn the above material, (2) to develop an ease with reading quickly through academic articles in the field, (3) to develop a clearer sense of what constitutes a good research topic, and (4) to bridge the gap between academic and policy work.

Trefler's teaching style is somewhat idiosyncratic. I teach through repetition of difficult concepts. Each week a key article will be assigned. Students are required to briefly read this article in advance of the lecture, to attend a lecture about this article, to attend a tutorial to review the more technical aspects of the article, and to present to the class a related article that uses a similar framework.

**Prerequisite:**

ECO2304 will have ECO2300 as a pre-requisite.

**Components of course and schedule:**

- 'Problem set' on the Melitz model – **5%**.
- **Before** each lecture students will provide (via e-mail) comments on one of the papers being presented in the lecture. The comments will briefly summarize the paper and provide one or two brief insights in the form of a comment (favourable or critical) or a question about the paper – **10%**.
- Quiz on the Melitz model (probably in week 5) – **10%**.
- 2 class presentations of published papers. Each presentation will be 20 minutes long and presented during the Friday tutorials. M.A. students will be assigned easier papers – **30%**.
- Once a week starting in week 6, students will submit a one-page research proposal – **15%**
- Final exam – **30%**.

- Depending on the student mix for the year I will consider an alternative grading scheme in which either the final exam or the one-page research proposals will be replaced with a group project. Examples of projects include:
    - Evaluating the benefits of FDI by state-owned enterprises e.g., the CNOOC-Nexen deal.
    - Evaluating claims that Canada's trade structure is shifting away from 'high-tech' manufacturing and towards 'low-tech' resource extraction.
- The form of the project might either be a research paper or a debate.

**Readings:**

- There is usually one required reading per week. Additional readings, not required, are listed with brackets [].

## Part I. Firm Heterogeneity and International Trade

### 1. Introduction: Empirical Evidence on Firm Heterogeneity (Week 1)

- Bernard, Andrew B., J. Bradford Jensen, Stephen J. Redding, and Peter K. Schott, "Firms in International Trade," *Journal of Economic Perspectives*, Summer 2007, 21 (3), 105–130.
- [Helpman, Elhanan, "Trade, FDI and the Organization of Firms," *Journal of Economic Literature*, September 2006, XLIV (3), 589–630.]

### 2. The Melitz Model (Week 2)

- Melitz, Marc J., "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity," *Econometrica*, November 2003, 71 (6), 1695–1725.
- [Krugman, Paul R., "Scale Economies, Product Differentiation, and the Pattern of Trade," *American Economic Review*, December 1980, 70 (5), 950–959.]
- Web Resources: Melitz (2003) annotated, CES Monopolistic Competition: A Mathematical Primer.

**Tutorial (Week 2):** Detailed review of Melitz (2003)

### 3. Exporting and Productivity (Week 3)

- Lileeva, Alla and Daniel Trefler, "Improved Access to Foreign Markets Raises Plant-Level Productivity ... for Some Plants," *Quarterly Journal of Economics*, August 2010, CXXV (3), 1051–1072 and 1082–1087.
- [Bernard, Andrew B. and J. Bradford Jensen, "Exceptional Exporter Performance: Cause, Effect, or Both?," *Journal of International Economics*, February 1999, 47 (1), 1–25.]

**Tutorial (Week 3):** Student presentations

- Bernard, Andrew B. and Stephen J. Redding, and Peter K. Schott, "Comparative Advantage and Heterogeneous Firms Comparative Advantage and Heterogeneous Firms," *Review of Economic Studies*, January 2007, 74 (1), 31–66.
- Chaney, Thomas, "Distorted Gravity: The Intensive and Extensive Margins of International Trade," *American Economic Review*, September 2008, 98 (4), 1707–21.
- Helpman, Elhanan, Marc Melitz, and Yona Rubinstein, "Estimating Trade Flows: Trading Partners and Trading Volumes," *Quarterly Journal of Economics*, May 2008, 123 (2), 441–487.
- Arkolakis, Costas, "Market Penetration Costs and the New Consumers Margin in International Trade," *Journal of Political Economy*, forthcoming.
- [Eaton, Jonathan and Samuel Kortum and Francis Kramarz, "An Anatomy of International Trade: Evidence from French Firms," *Econometrica*, September 2011, 79 (5), 1453–1498.]
- [Bernard, Andrew B., Stephen J. Redding, and Peter K. Schott, "Multi-Product Firms and Trade Liberalization," *Quarterly Journal of Economics*, forthcoming.]

#### 4. A Variable Markup Model (Week 4)

- Melitz, Marc J. and Giancarlo I. P. Ottaviano, “Market Size, Trade, and Productivity,” *Review of Economic Studies*, 2008, 75 (1).

**Tutorial (Week 4):** Detailed review of Melitz and Ottaviano (2008).

#### 5. Using the Canada-U.S. Free Trade Agreement to Test Our Theories (Week 5)

- Melitz, Marc J. and Daniel Trefler, “The Gains from Trade When Firms Matter,” mimeo, 2011.
- [Trefler, Daniel, “The Long and Short of the Canada-U.S. Free Trade Agreement,” *American Economic Review*, September 2004, 94 (4), 870–895.]
- (Two Handouts)

**Tutorial (Week 5):** Student presentations continued.

#### 6. Ricardian Models (Weeks 6 and 7)

- Eaton, Jonathan and Samuel Kortum, “Technology, Geography, and Trade,” *Econometrica*, September 2002, 75 (5), 1741–1779.
- [Bernard, Andrew B. and Jonathan Eaton, Bradford Jensen, and Samuel Kortum, “Plants and Productivity in International Trade,” *American Economic Review*, September 2003, 93 (4), 1268–1290.]

**Tutorial (Week 6):** Detailed Review of Eaton and Kortum (2002).

## Part II. Multinationals, Offshore Outsourcing, and Incomplete Contracts

#### 7. Introduction, Basic Facts, and Models with Complete Contracts (Week 7)

- Markusen, James R., “The Boundaries of Multinational Enterprises and the Theory of International Trade,” *Journal of Economic Perspectives*, Spring 1995, 9 (2), 169–189.

#### 8. Multinationals and the Theory of the Firm – Incomplete Contracts (Week 8)

- Antràs, Pol, “Firms, Contracts, and Trade Structure,” *Quarterly Journal of Economics*, November 2003, 118 (4), 1375–1418.

**Tutorial (Week 9):** Student Presentations

- Brainard, S. Lael, “An Empirical Assessment of the Proximity-Concentration Trade-off Between Multinational Sales and Trade,” *American Economic Review*, September 1997, 87 (4), 520–544.
- Markusen, James R. and Anthony J. Venables, “The Theory of Endowment, Intra-Industry and Multinational Trade,” *Journal of International Economics*, December 2000, 52 (2), 209–234.
- Helpman, Elhanan, Marc J. Melitz, and Stephen R. Yeaple, “Export versus FDI with

Heterogeneous Firms,” *American Economic Review*, 2004, 94 (1), 300–316.

- Helpman, Elhanan, “A Simple Theory of International Trade with Multinational Corporations,” *Journal of Political Economy*, June 1984, 92 (3), 451–471.

### 9. Multinationals and the Theory of the Firm (Continued) (Week 9)

- Antràs, Pol and Elhanan Helpman, “Global Sourcing,” *Journal of Political Economy*, 2004, 112, 552–580.

### 10. Multinationals and the Theory of the Firm – Empirics and Scope (Week 10)

- Antràs, Pol, “Grossman-Hart (1986) Goes Global: Incomplete Contracts, Property Rights, and the International Organization of Production,” *Journal of Law, Economics, and Organizations*, forthcoming.
- [Nunn, Nathan and Daniel Trefler, “The Boundaries of the Multinational Firm: An Empirical Analysis,” in Elhanan Helpman, Dalia Marin, and Thierry Verdier, eds., *The Organization of Firms in the Global Economy*, Cambridge, MA: Harvard University Press, 2008, pp. 55–83.]

#### **Tutorial (Week 10):** Student Presentations

- Antràs, Pol and Elhanan Helpman, “Contractual Frictions and Global Sourcing,” in Elhanan Helpman, Dalia Marin, and Thierry Verdier, eds., *The Organization of Firms in the Global Economy*, Cambridge, MA: Harvard University Press, 2008, pp. 9–54.
- [Acemoglu, Daron, Pol Antràs, and Elhanan Helpman, “Contractual Frictions and Global Sourcing,” *American Economic Review*, 2007, 97, 916–943.]

## Part III. Other Topics (Weeks 10-12)

### 1. Sorting and International Trade (Week 10)

- Ohnsorge, Franziska and Daniel Trefler, “Sorting It Out: International Trade and Protection With Heterogeneous Workers,” *Journal of Political Economy*, October 2007, 115 (5), 868–892.
- [Costinot, Arnaud, “An Elementary Theory of Comparative Advantage,” *Econometrica*, 2009, 77 (4), 1165–1192.]
- [Costinot, Arnaud, and Jon Vogel, “Matching and Inequality in the World Economy,” *Journal of Political Economy*, 2010, 118 (4), 747–786.]

### 2. Quality and Trade (Week 11)

- [Berry, Steven T., “Estimating Discrete Choice Models of Product Differentiation,” *RAND Journal of Economics*, Summer 1994, 25 (2), 242–262.]
- [Khandelwal, Amit, “The Long and Short (of) Quality Ladders,” *Review of Economic Studies*, October 2010, 77 (4), 1450–1476.]

- [Sutton, John and Daniel Trefler, “Deductions from the Export Basket: Capabilities, Wealth and Trade,” NBER Working Paper, 2011. An updated version is available from Trefler.]

### 3. International Trade and Domestic Institutions (Week 12)

- Nunn, Nathan, and Daniel Trefler, “Domestic Institutions as a Source of Comparative Advantage,” forthcoming, *Handbook of International Trade* edited by Gopinath, Helpman and Rogoff.
- Acemoglu, Daron, Simon Johnson, and James A. Robinson, “The Rise of Europe: Atlantic Trade, Institutional Change and Economic Growth,” *American Economic Review*, June 2005, 95 (3), 546–579.
- Puga, Diego and Daniel Trefler, “The Dynamics of International Trade, Income Distribution and Domestic Institutions: A Death in Venice,” 2010. Mimeo, University of Toronto.] [Puga, Diego, and Daniel Trefler, “International Trade and Institutional Change: Medieval Venice's Response to Globalization,” NBER WP 18288, 2012.
- [Dippel, Christian, Avner Grief and Daniel Trefler, “The Rents from Trade: Wages and Coercion in the Post-Abolition British Caribbean.” Available from Trefler.]

**Tutorial (Week 12):** Student presentations (if needed).

- Nunn, Nathan, “Relationship-Specificity, Incomplete Contracts, and the Pattern of Trade,” *Quarterly Journal of Economics*, May 2007, 122 (2), 569–600.
- Manova, Kalina, “Credit Constraints, Heterogeneous Firms, and International Trade,” Working Paper 14531, National Bureau of Economic Research, December 2008.
- Chor, Davin, “Unpacking Sources of Comparative Advantage: A Quantitative Approach,” *Journal of International Economics*, November 2010, 82(2), 152-167.